



International Monetary and Financial Committee

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April 21, 2012

**Statement by Timothy F. Geithner
Secretary of the Treasury, United States**

On behalf of the United States

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**Prepared for the International Monetary and Financial Committee
of the Board of Governors of the International Monetary Fund**

**Washington, D.C.
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After a renewed period of stress in the global economy, the outlook has improved and some progress is being made to reduce global imbalances. But the recovery remains fragile, with continued risks from the euro area and higher oil prices. The United States economy continues to gather strength despite adverse shocks from the crisis in Europe, last year's supply chain disruptions, increases in oil and gasoline prices, and slower growth in some emerging markets.

U.S. growth has averaged about 2 1/2 percent since the recovery began, and the economy has added private sector jobs for 25 straight months, totaling 4.1 million jobs over the period. The balance sheet of the business sector is stronger, and the economy as a whole is more productive than before the crisis. We have made significant progress in reducing the excesses and imbalances that helped cause the crisis. Household debt to income has come down significantly from pre-crisis levels, and U.S. financial sector debt has dropped by more than \$3 trillion since the crisis began. Reflecting early action on repair and reform, U.S. banks are strongly capitalized relative to their peers, improving confidence in our financial sector and allowing for an expansion in credit to the private sector.

The positive tone of recent data suggests the economy is gradually healing and getting stronger, but the financial crisis put our economy in a deep hole and it will take time to fully repair the damage and to restore the economic security of the middle class. Unemployment remains high, the housing market continues to be weak, and growth is not as fast as we would like. President Obama has laid out a blueprint for the economy that proposes action to support growth in the short-term so that we do not jeopardize the gains our economy has made over the last three years. We will continue to improve on and expand our existing programs to find new ways to strengthen the market and help homeowners.

Alongside measures to support growth, the President has also outlined a balanced approach to address our formidable long-term fiscal problem. Including the legislation signed into law last year, this would reduce the deficit by more than \$4 trillion over the next decade. The President's deficit reduction plan will put the nation's finances on a sustainable course, cutting the deficit in half and moving the national debt to a consistently declining path.

In Europe, leaders have taken important action in recent weeks and months to strengthen their crisis response, reduce financial stress, and lay the foundations for greater stability. The success of the next phase of the crisis response will hinge on Europe's willingness and ability, together with the European Central Bank (ECB), to apply its tools and processes creatively, flexibly and aggressively to support countries as they implement reforms and stay ahead of markets.

The IMF can and should play a complementary role in a comprehensive and well-designed European response. We welcome the pledges by several International Monetary Fund (IMF) members to provide bilateral loans to the Fund. The IMF has substantial capacity to play its systemic role in the global economy and thus help address, if necessary, the effects of the European crisis on the rest of the world. We also welcome the commitment by the G-20 and the International Monetary and Financial Committee (IMFC) to incorporate additional safeguards to protect IMF resources. The United States continues to support the smooth functioning of international financial markets, including through the central bank swap lines with the ECB.

Oil prices also present a risk to global growth. Higher prices strain household budgets and weigh against private sector demand growth. The United States has and will continue to work with our international partners to promote an adequate global supply of petroleum. These efforts are beginning to show some positive effects—over the past few weeks crude oil prices have fallen and global oil inventories are rising. It is important that we remain vigilant to the risks of supply disruptions and their effect on economic growth.

A better balanced global economy is important to achieving sustainable growth and financial stability. Current account surpluses and deficits are down from pre-crisis levels, but further action is needed to guard against unsustainable imbalances re-emerging. As current account deficit countries have worked to raise domestic savings, the global economy and job creation are being hindered by insufficient aggregate demand growth. We therefore need to see stronger acceleration of growth in domestic demand in current account surplus economies, as well as greater exchange rate flexibility in countries such as China. China's recent decision to widen the daily trading band for its exchange rate, if implemented in a way that allows the value of the exchange rate to reflect market forces, could contribute to this rebalancing. While we welcome the progress to date, the process of correcting the misalignment of China's exchange rate remains incomplete and further appreciation is necessary, and in China's interest.

Since the first demonstrations in Tunisia in December 2010, the Arab Spring has sparked a transformative change in the Middle East and North Africa. More than a year later, the region finds itself in the midst of enormous and positive democratic change. At the same time, the region faces distinct economic challenges that could undermine these gains. Strong oil prices, weakening tourism and capital flows associated with uncertainty, and the weak demand in Europe have greatly affected the region. Steps must be taken to restore stability, boost job creation, and increase public participation. The Deauville Partnership with Arab Countries in Transition provides a unique platform to help support Arab Spring countries in these efforts.

There is a clear global focus on bringing pressure to bear on Iran to halt its illicit activity. On the financial front, financial institutions around the world have cut off designated Iranian banks, making it harder for Iran to facilitate its nuclear activities or evade sanctions. On the energy front, some of the world's largest economies have taken steps to significantly reduce their volume of Iranian oil imports. Continued cooperation to ensure adequate supply will signal to global energy markets that there will be sufficient production available to meet demand.

Surveillance remains the core mission of the IMF. We welcome the steps the Fund has already undertaken to improve its analysis of domestic policies and global risks. Exchange rates continue to be integral to the stability of the international monetary system and are at the core of the Fund's surveillance mandate. We look forward to the publication of a rigorous External Sector Report and External Balance Assessment, including clear assessments on exchange rates and reserve accumulation and identifying the sources of global imbalances.

Exchange rate flexibility is also an essential tool in managing capital flows. The IMF's approach to capital flows must therefore emphasize the importance of exchange rates and macroeconomic policies as the first line of defense in responding to surges in capital flows.

Full implementation of the reform of the Executive Board is critical to improving the legitimacy and effectiveness of the Fund. I urge my European colleagues to move forward on Europe's Board reform commitments in time for the 2012 Board election.

The review of the quota formula provides an opportunity to make fundamental revisions so that quotas actually reflect countries' relative economic weights in the global economy, as measured by GDP.

Supporting economic stability in low-income countries (LICs) is also a critical mission of the Fund. Therefore, we believe that the windfall profits from recent gold sales should be used solely to support LICs, and we urge the IMF Board to examine ways to increase the concessionality of Poverty Reduction and Growth Trust lending.